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¶1. (SBU) SUMMARY: At the conclusion March 6 of a mission by the IMF to assess Congo's progress with its current PRGF (Poverty Reduction and Growth Facility) program, mission chief Robert York briefed interested diplomatic missions and international organizations, along with key financial interlocutors, on the mission's findings. With respect to Congo's program to qualify for debt relief under the Highly Indebted Poor Countries (HIPC) initiative, he identified oil marketing transparency and government procurement as areas where more progress is needed, as did a similar earlier World Bank mission (reftel). END SUMMARY.

¶2. (SBU) Identifying the mission as the first review of the PRGF program approved on December 8, 2008, he said that the parameters of the examination looked backward, at performance up to December 31, and forward, at the ability of the authorities to achieve the program's objectives. In addition, with the World Bank, the mission would look at the implementation of the HIPC "floating completion point" in light of the Congo government's desire to move to completion point as soon as possible.

¶3. (SBU) With respect to the backward look, as of end-December, Congo had met all the quantitative targets, although performance on the non-oil primary deficit had been very near the outside limit. With respect to structural targets, on public finance management, the Congo target was to achieve quarterly certification of audits and to post the audits with government comments on the internet. Though the auditors had completed and posted the results, the required comment had not been posted. Second, with respect to the requirement to repatriate oil proceeds within 45 days of lifting, there had been some progress, and the government was close to the target, but there had been some slippage. There were also some (unspecified) technical difficulties in the second half of 2008 regarding oil marketing.

¶4. (SBU) With respect to the "forward" look, discussion with the authorities had revolved around the outlook for oil revenues, with concerns regarding the fluctuations in exchange rates (largely between the euro and the US dollar) and the sharp expected decline in revenues in 2009. That raised concerns about how to achieve the program objectives, in light of the need to find a balance between the desire for a tight fiscal stance and the possible need for a stimulus should growth decline sharply. It would be necessary for the government to re-consider low-priority initiatives that were outside the PRSP (Poverty Reduction and Support Paper) framework, as well as the investment budget. For example, he said, fuel subsidies could be reduced. Moreover the government could use more of its HIPC resources in priority areas. With respect to the financial crisis, York noted that the Congo economy was not well-integrated into the world economy, particular its financial

sector, which was largely insulated from developments outside Congo and which enjoyed strong liquidity. This, he said, contrasted to the timber sector, which was "severely depressed" as a result of falling demand for wood. He characterized the outlook for the timber sector as "grim." Considering all these factors, the growth outlook for 2009 had been reduced by half, from the earlier-projected 8 percent to 4 percent. In response to a question after the main presentation, York said that Congo's average per-barrel price for oil during 2008 was $99.00, expected to drop by over half in 2009, to around $40.00 per barrel. He emphasized that with declining oil prices, the horizon for high risk for debt distress would move further away in time and thus, when oil prices were low, debt relief became more important. He also noted that Congo's oil sector, in terms of exports, was still growing, with 2010 expected to be the peak production year. Due to a fire in one production facility, 2008 had been a little lower than expected, but oil growth was still projected at 10%.

¶5. (SBU) Thus, he said, there might need to be a fiscal adjustment in 2009 to meet changing circumstances. There was the possibility that the Congo authorities would present a request in late March/early April, but this, and the first review, were contingent on the Congo government providing a report to the Paris Club (which York characterized as "very important") regarding the status of negotiations with all/all creditors, specifically including the "litigating creditors," This, he said, was a condition of the Paris Club for the December 8 rescheduling to support financing assurances of the Club members.

¶6. (SBU) With respect to HIPC, York said that there are a large number of the "triggers" established in 2006 that have been met, mentioning particularly external debt, education, health, and public financial management. Though not yet met, he said there were good prospects to meet the triggers in forests, telecommunications, and the annual report on PRSP progress.

However, he said, progress had been "slow" in the areas of procurement and oil sector government, in particular the requirement for successive successful audits of the national petroleum marketing arm (SNPC) and action with respect to the commercialization of Congo-owned oil. He said the IMF and the World Bank had provided an action plan, and the "ball is in the Congo's court" on the timing of implementation (and thus movement closer to completion point). Of course, he said, satisfactory performance under the PRGF was also required.

¶7. (SBU) Responding to a question after the presentation, York said that from the point of view of IMF staff, the only route to stronger performance is stronger implementation of the trigger requirements. There is, he said, no scope to reach completion point other than full implementation of those requirements, and IMF staff is not prepared to consider or recommend otherwise, despite strong external and political pressures to do so.

¶8. (SBU) He told the Ambassador in a subsequent private conversation that "this is not the time to go soft." Despite an unprecedentedly difficult external situation, Congo has its own resources to weather the difficulties, and the key point should be to maintain discipline, not relaxing on the fiscal situation nor on structural reforms.

¶9. (SBU) COMMENT: We agree. END COMMENT
EASTHAM